99-639

No. _____

In The

Supreme Court of the United States

October Term, 1999

CIRCLE INDUSTRIES USA, INC.,

Petitioner,

v.

PARKE CONSTRUCTION GROUP, INCORPORATED,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

PETITION FOR WRIT OF CERTIORARI

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PETITION FOR WRIT OF CERTIORARI TO UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

QUESTIONS PRESENTED FOR REVIEW

Whether an inactive corporation, whose only activity is engaging in a law suit, has a principal place of business in the state from which it is prosecuting that law suit.

LIST OF PARTIES

The parties to the proceeding in the United States Court of Appeals for the Second Circuit were the petitioner, Circle Industries USA, Inc., and the respondent, Parke Construction Group, Incorporated.

RULE 29.6 STATEMENT

Petitioner, Circle Industries USA, Inc., does not have a parent corporation or a publicly held company that owns 10% or more of its stock.

TABLE OF CONTENTS

Page

QUESTION PRESENTED FOR REVIEW i

LIST OF PARTIES ii

TABLE OF CONTENTS iii

TABLE OF AUTHORITIES v

OPINIONS BELOW 1

BASIS FOR JURISDICTION 1

STATUTORY PROVISIONS INVOLVED 1

STATEMENT OF THE CASE 2

A. Introduction 2

B. Statement of Facts 3

REASON FOR GRANTING THE WRIT 5

a. The Petition Should Be Granted As Four United States Courts Have Entered Conflicting Decisions On The Same Important Matter 5

b. The Petition Should Be Granted As The Decision Of The Second Circuit Does Not Effectuate The Purposes Of Either The Diversity Or The Remand Statutes 7

CONCLUSION 9

TABLE OF CONTENTS (cont'd)

Page

APPENDIX

Appendix A - - Opinion of the United States Court of Appeals for the Second Circuit in *Circle Industries USA, Inc. v. Parke Construction Group, Incorporated,* 183 F.3d 105 (2nd Cir. 1999), filed July 15, 1999 . . . . . A1

Appendix B - - Opinion of the United States District Court for the Eastern District of New York in *Circle Industries USA, Inc. v. Parke Construction Group, Incorporated,* 1998 WL 713305 (E.D.N.Y.), filed October 8, 1998 . . . . . A10

TABLE OF AUTHORITIES

Page

FEDERAL CASES

Athena Automotive, Incorporated v. DiGregorio,
166 F.3d 288 (4th Cir. 1999) 5,6,7

Barrow S.S. Co. v. Kane, 170 U.S. 100,
18 S.Ct. 526, 42 L.Ed. 964 (1898) 8

Circle Industries USA, Inc. v. Parke Construction Group, Incorporated, 183 F.3d 105 (2nd Cir. 1999) 1

Freeport-McMoRan, Inc. v. K N Energy, Inc.
498 U.S. 426, 111 S.Ct. 858, 112 L.Ed.2d 951 (1991) *8*

Harris v. Black Clawson Co., 961 F.2d 547 (5th Cir. 1992) .. 6

Mid Atlantic National Bank v. Hansen,
48 F.3d 693 (3rd Cir. 1995) 5

Pinnacle Consultants, Ltd. v. Leucadia National Corp.,
101 F.3d 900 (2nd Cir. 1996) 5

Turner v. Bank of North America, 4 U.S. (4 Dall.) 7 (1799) .. 7

Wm. Passalacqua Builders, Inc. v. Resnick Developers South, Inc., 933 F.2d 131 (2nd Cir. 1991) 5,6

TABLE OF AUTHORITIES *cont'd*

Page

STATUTES

28 U.S.C. § 1332(c)(1) 1,2,3,5

28 U.S.C. § 1441 1,3

28 U.S.C. § 1441(a) 2,4

28 U.S.C. § 1441(b) 2,4

OTHER AUTHORITY

Wright & Miller, Federal Practice and Procedure,
13B, Chapter 3, Section 3601 8

Wright & Miller, Federal Practice and Procedure,
14B, Chapter 7, Section 3721 8

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

The petitioner, Circle Industries USA, Inc (Circle)., respectfully requests that a writ of certiorari issue to review the judgment and decision of the United States Court of Appeals for the Second Circuit, decided July 15, 1999, which affirmed the United States District Court for the Eastern District of New York's (Johnson, J.) denial of Circle's motion to remand this action to the Supreme Court of the State of New York, County of Nassau and the District Court's judgment confirming an arbitration award. The Court of Appeals also reversed the District Court's order that granted attorneys' fees to Respondent Parke Construction Group, Incorporated (Parke), pursuant to 28 U.S.C., § 1447(c).

OPINIONS BELOW

The opinion of the United States Court of Appeals for the Second Circuit is reported at *Circle Industries USA, Inc. v. Parke Construction Group, Incorporated,* 183 F.3d 105 (2nd Cir. 1999) (App. A). The opinion of the United States District Court for the Eastern District of New York is not officially reported, but can be found at 1998 WL 713305 (App. B).

BASIS FOR JURISDICTION

The Judgment and Decree of the United States Court of Appeals for the Second Circuit was issued on August 5, 1999. This Court has jurisdiction to review the decree and judgment of a court of appeals pursuant to 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

28 U.S.C. § 1332(c)(1) provides in pertinent part:

(c) For the purposes of this section and section 1441

of this title–

(1) a corporation shall be deemed to be a citizen of any State by which it has been incorporated and of the State where it has its principal place of business ...

28 U.S.C. § 1441(a) provides, in pertinent part:

(a) Except as otherwise provided by Act of Congress, any civil action brought in a State court of which the district courts of the United States have original jurisdiction, may be removed by the defendant or the defendants, to the district court of the United States for the district and division embracing the place where such action is pending.

28 U.S.C. § 1441(b) provides, in pertinent part:

(b) ... Any other such action shall be removable only if none of the parties in interest properly joined and served as defendants is a citizen of the State in which such action is brought.

STATEMENT OF THE CASE

A. Introduction

This case presents an opportunity for this Court to settle a basic issue of federal jurisdiction. For purposes of diversity jurisdiction, a corporation is a citizen of the State by which it has been incorporated and the State in which it has its principal place of business, 28 U.S.C. § 1332(c)(1) If a corporation is inactive, what test shall be used to determine the State in which it has its principal place of business, if any. Surprisingly, this issue has not been long ago settled. Four Courts of Appeals have reached three different answers to the problem during the past decade. A final

ruling from this Court would be helpful to the District Courts and the Courts of Appeals in deciding cases that arise under the diversity jurisdiction statute, 28 U.S.C. § 1332, and the removal jurisdiction statute, 28 U.S.C. § 1441.

B. Statement of Facts

On July 1, 1993, Circle, of Garden City Park, New York, and Parke, of Marietta, Georgia, became joint venturers to perform certain carpentry and dry wall construction work in the Atlanta, Georgia metropolitan area. A Joint Venture Agreement was executed, Joint Appendix filed in the Second Circuit, page 48 (A48). The Joint Venture was called Parke Construction/Circle USA. During its brief life the Joint Venture worked on several construction projects in the Atlanta, Georgia area. Its most important job was the University Apartments job, the Olympic Village Dorms. This was a $6,900,000.00 job and ran from November of 1994 until July of 1996. This job made the greatest contribution to the break up of the Joint Venture and the disputes that have led to one arbitration; two legal actions; an appeal and this Petition.

> "Between 1993 and the fall of 1995, Parke's registered office was located in Georgia and its registered agent, Greg Lubonty, resided there. In the spring of 1995, the parties agreed to phase out the joint venture, and Parke performed its last construction work in Georgia in the fall of 1995. Parke also closed its office in Georgia at that time. The corporation's registered agent, Lubonty, then left the state, and all mail addressed to Park was forwarded to Parke's president, John Bowe, in New York. Parke's activity since late 1995 has been limited to collecting its various accounts in Georgia and prosecuting this action in New York." 183 F.3d 105, 107.

After an unsuccessful attempt, during the summer of 1995, by Parke to obtain an injunction against Circle in the United States District Court for the Northern District of Georgia, the parties agreed to arbitrate their disputes before the American Arbitration Association (AAA) in New York, as required by their Joint Venture Agreement.

An arbitrator was appointed by the AAA, and hearings were held at the Manhattan offices of the AAA. Over a period of many months, several days of hearings were held, the last of which was held on November 11, 1996. No transcript of the proceedings was made.

On April 23, 1997, the arbitrator issued his award in favor of Parke in the amount of $146,590.00, plus interest (A139). On May 6, 1997, Circle brought a special proceeding in the Supreme Court of the State of New York, County of Nassau, to vacate the arbitrator's award. On June 5, 1997, Parke removed the action to the United States District Court for the Eastern District of New York, Civil Action Number 97 Civ. 3334 (SJ). Parke alleged that it was formed under the laws of the State of Georgia and that its principal place of business was located in Georgia.

On July 10, 1997, Circle made a timely motion to remand the case to the New York State Supreme Court (A11). Circle's motion was based on essentially uncontradicted evidence that since 1995, Parke's only operating agent, John Bowe, has been operating in New York; Parke's mail is being sent to John Bowe in New York; it is likely that Parke's books and records are located in New York; all major decisions are being made by John Bowe in New York. In short, all of Parke's activities are taking place in New York (A13) and that Parke's only place of business was in the State of New York. Since Parke and Circle were both citizens of New York, Circle claimed that there was no diversity jurisdiction and that the matter was improvidently removed. Of course, if Parke was a citizen of New York, the case would not have been removable under 28 U.S.C. § 1441(b) as well as 28 U.S.C. § 1441(a).

On September 15, 1997, Judge Johnson issued an Order providing, without explanation, that diversity existed between the

parties and awarding attorney's fees to Parke (A41).

On June 13, 1997, Parke moved to dismiss Circle's petition to vacate the award and to confirm the award. The Court's Memorandum and Order of October 8, 1998, denied Circle's petition to vacate the award and granted Parke's motion to confirm the award, 1998 WL 713305 (E.D.N.Y.), (App.B). Circle appealed (A234).

On July 15, 1999, the United States Court of Appeals for the Second Circuit issued its decision in Docket No. 98-9539. It reversed the District Court's award of attorneys' fees, 183 F.3d 105, 110. It affirmed the District Court's denial of Circle's motion to remand and its judgment confirming the arbitration award, 183 F.3d 105, 110.

REASONS FOR GRANTING THE WRIT

1. The Petition Should Be Granted As Four United States Courts Have Entered Conflicting Decisions On The Same Important Matter

The view of the Second Circuit is expressed in *Pinnacle Consultants, Ltd. v. Leucadia National Corp.*, 101 F.3d 900, 907 (2nd Cir. 1996) and *Wm. Passalacqua Builders, Inc. v. Resnick Developers South, Inc.*, 933 F.2d 131, 141 (2nd Cir. 1991). An inactive corporation's principal place of business is the state in which the inactive corporation last transacted business. This is so regardless of the period of time that the corporation has been inactive. Participating in a law suit in New York and directing that law suit from New York, do not constitute transacting business for the purposes of diversity jurisdiction.

The Third Circuit takes an equally rigid, but opposite position. An inactive corporation has no principal place of business and is only a citizen of its State of incorporation, see *Mid Atlantic National Bank v. Hansen*, 48 F.3d 693, 696 (3rd Cir. 1995).

The Fourth and Fifth Circuits apply a "facts-and-circumstances" test. In *Athena Automotive, Incorporated v.*

DiGregorio, 166 F.3d 288 (4th Cir. 1999), the Fourth Circuit expressly rejected the views of both the Second and the Third Circuits.

> "Because we are required to view the corporation's citizenship for purposes of diversity jurisdiction at the time the action is commenced, we cannot categorically conclude that an inactive corporation is a citizen of its last place of business, as the Second Circuit concluded in Wm. Passalacqua, 933 F.2d at 141. On the other hand, to adopt a 'bright-line' rule, as announced by the Third Circuit in Hansen, 48 F.3d at 696, that a corporation inactive at the commencement date of the litigation has no place of business and is therefor only a citizen of its state of incorporation could overlook the realities of a corporation's business activities and their geographical nexus, yielding a result demonstrably at odds with the statute." 166 F.3d 288, 291.

The Fourth Circuit in *Athena, supra,* has adopted the Fifth Circuit's "facts- and- circumstances" position, as set forth in *Harris v. Black Clawson Co.*, 961 F.2d 547, 551 (5th Cir. 1992).

> "These observations prompt us to emphasize that determinations of a corporations principal place of business must be made on a case by case basis. And a court must analyze the facts of each case to determine as of the date the action was commenced whether a corporation's business activity was sufficient to make it a citizen of the state of such activity." 166 F.3d 288, 291.

The Fourth and Fifth Circuits regard the winding up activities of an inactive corporation as a relevant factor in determining if the inactive corporation has a local presence in a

given locale. The Fourth and Fifth Circuits examine the period of the inactivity as a relevant factor. The Fourth and Fifth Circuits consider the conduct and direction of litigation as a relevant factor. In fact, at the very end of the *Athena, supra,* decision, the Court stated, as *dicta*, that if a corporation's only activity was pursuing a litigation, it's principal place of business would be the state from which it was conducting the litigation, see 166 F.3d 288, 292. In other words, in the instant matter, if had been decided by the Fourth Circuit rather than the Second Circuit, the Court would have reversed the District Court on the remand issue.

2. The Petition Should Be Granted As The Decision Of The Second Circuit Does Not Effectuate The Purposes Of Either The Diversity Or The Remand Statutes

The Federal District Courts are courts of limited jurisdiction. The District Court "is of limited jurisdiction; and has cognizance, not of cases generally, but only of a few specially circumstanced, amounting to a small portion of the cases which an unlimited jurisdiction would embrace. And the fair presumption is ... that a cause is without its jurisdiction, unless the contrary appears." *Turner v. Bank of North America*, 4 U.S. (4 Dall.) 7, 11 (1799).

All courts are concerned with determining their jurisdiction. As a result of their limited jurisdiction, Courts of the United States are particularly required to determine jurisdiction as a threshold matter. Diversity jurisdiction is one of the two main branches of District Court jurisdiction and determining its limits would seem to be of signal importance.

The often cited reason for providing for diversity jurisdiction and for allowing removal to the federal courts is to provide protection to certain defendants from the possible local prejudices of the state courts.

> "As seems to be true of the original diversity of citizenship jurisdiction of the federal courts, the right of removal probably was designed to protect

> nonresidents from the local prejudice of state courts." Wright & Miller, Federal Practice and Procedure, 14B, Chapter 7, Section 3721. See also *Barrow S.S. Co. v. Kane,* 170 U.S. 100, 111, 18 S.Ct. 526, 530, 42 L.Ed. 964 (1898) and Wright & Miller, Federal Practice and Procedure, 13B, Chapter 3, Section 3601.

The Second Circuit position is wrong precisely because it ignores the local prejudice factor. The Second Circuit insists on assigning citizenship to an inactive corporation, in the state where it last transacted business, without regard to how recently business was transacted. In the instant action, Parke is considered to be a Georgia citizen even though it has been totally absent from Georgia since 1995.

Let us assume for the moment that Parke was not incorporated in Georgia. If Circle sued Parke in state court in Georgia, does it make sense to treat Parke as a Georgia citizen and deny Parke the right of removal? Parke's defense would be directed from New York by a New Yorker. Yet the Second Circuit position would deny Parke the protection of a federal court forum. Continuing the same assumptions, if Circle sued Parke in state court in New York, Parke would be able to remove to federal court, even though Parke's defense would be directed from new York, by a New Yorker. The wrong test leads to the wrong results.

The Second Circuit's position is further indicted by its refusal to allow the direction of a law suit as a factor in deciding where a corporation is transacting business. There is no logic in simply excluding this as a factor. In the instant matter, if the Second Circuit had given some regard to Parke's direction of this litigation from New York, it could have lead to a different result on the issue of the remand to State Court.

The Second Circuit position fails to give the proper regard to viewing the facts of diversity and removal as of the time an action commences and as of the time it is removed, see *Freeport-McMoRan, Inc. v. K N Energy, Inc.*, 498 U.S. 426, 428, 111 S.Ct. 858, 112 L.Ed.2d 951 (1991). By viewing the citizenship issue as

foreclosed and unaffected by the passage of time, the Second Circuit is giving undue weight to facts that were in existence at a time other than when the action was commenced or removed. Once again, the wrong test will lead to wrong results.

CONCLUSION

This case presents a question of importance, whether an inactive corporation, whose only activity is engaging in a law suit, has a principal place of business in the state from which it is prosecuting that law suit. This case presents an opportunity for this Court to resolve a conflict involving four Courts of Appeals holding three different positions.

If the petition is granted, this Court can correct the errors that allowed this case to remain in the federal court system when all the parties were actually citizens of New York. This Court can direct that this case be remanded to the Supreme Court of the State of New York, County of Nassau.

Circle Industries USA, Inc., respectfully requests that its petition for a writ of certiorari be granted.

Dated: Huntington, New York
October 7, 1999

Respectfully submitted,

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APPENDIX A

183 F.3d 105, *; 1999 U.S. App. LEXIS 15950, **

CIRCLE INDUSTRIES USA, INC.,
Plaintiff-Appellant,

v.

PARKE CONSTRUCTION GROUP, INCORPORATED,
Defendant-Appellee.

Docket No. 98-9539

UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

183 F.3d 105; 1999 U.S. App. LEXIS 15950

June 9, 1999, Argued July 15, 1999, Decided

PRIOR HISTORY: [**1] Appeal from an order and final judgment of the United States District Court for the Eastern District of New York (Sterling Johnson, Jr., Judge) denying plaintiff-appellant's motion to remand this action to state court, awarding defendant-appellee attorneys' fees pursuant to 28 U.S.C. §1447(c) for opposing the remand, and confirming an arbitration award rendered in favor of defendant-appellee.

DISPOSITION: Affirmed in part and reversed in part.

CORE TERMS: arbitrator, arbitration award, removal, joint venture, vacatur, vacate, principal place of business, diversity of citizenship, opportunity to review, transacted, duplicate, diversity,

opposing, registered, Commercial Arbitration Rules, subject matter jurisdiction, transacting business, accounts receivable, judgment confirming, final judgment, fees incurred, incorporation, confirmation, citizenship, duplication, confirming, inactive, revision, glanced, qualifies

COUNSEL: JEFFREY S. DUBIN, Law Office of Jeffrey S. Dubin, Garden City, NY, for plaintiff-appellant.

ROBERT MAHONEY, Friedman Siegelbaum LLP, Roseland, NJ (Lindsey H. Taylor, on the brief), for defendant-appellee.

JUDGES: Before: LEVAL and SOTOMAYOR, Circuit Judges, and POLLACK, * District Judge.

* The Honorable Milton Pollack, District Judge of the United States District Court for the Southern District of New York, sitting by designation.

OPINIONBY: SOTOMAYOR

OPINION:

[*106] SOTOMAYOR, Circuit Judge:

Plaintiff-appellant Circle Industries USA, Inc. ("Circle") initially brought this action in the Supreme Court of the State of New York, County of Nassau, suing to vacate an arbitration award rendered in favor of defendant-appellee [**2] Parke Construction [*107] Group, Inc. ("Parke"). When Parke removed the case to the District Court for the Eastern District of New York, Circle moved to remand the action to state court. On September 15, 1997, the district court (Johnson, J.) found that federal jurisdiction existed on the basis of diversity of citizenship and denied Circle's motion to remand. The district court also ordered Circle to pay the attorneys' fees incurred by Parke in opposing the remand motion. On October 23, 1998, the district court entered a final judgment

confirming the challenged arbitration award. For the reasons to be discussed, we affirm the district court's denial of Circle's motion to remand as well as its judgment confirming the arbitration award, but reverse the district court's grant of attorneys' fees to Parke under 28 U.S.C. § 1447(c) (1994).

BACKGROUND

Circle is a New York corporation with its principal place of business in New York. Parke was incorporated in Georgia in 1993 for the sole purpose of entering into a joint venture with Circle to work on several construction projects in the Atlanta metropolitan area. Between 1993 and the fall of 1995, Parke's registered [**3] office was located in Georgia and its registered agent, Greg Lubonty, resided there. In the spring of 1995, the parties agreed to phase out the joint venture, and Parke performed its last construction work in Georgia in the fall of 1995. Parke also closed its office in Georgia at that time. The corporation's registered agent, Lubonty, then left the state, and all mail addressed to Parke was forwarded to Parke's president, John Bowe, in New York. Parke's activity since late 1995 has been limited to collecting its various accounts in Georgia and prosecuting this action in New York.

This litigation arose from a dispute over Circle's alleged wrongful diversion of money from the joint venture. Parke filed suit against Circle in federal district court in Georgia, seeking injunctive relief. That action was dismissed when the parties submitted their dispute to binding arbitration before an arbitrator from the American Arbitration Association ("the AAA") in New York, as required under the terms of the joint venture agreement.

In November of 1996, the arbitrator conducted a five-day hearing on the parties' claims. During the proceedings, Circle introduced twenty-eight exhibits and Parke twenty-seven, [**4] each of which was marked as an exhibit personally by the arbitrator upon submission. The arbitrator reviewed some of the exhibits as they

came into evidence and glanced cursorily at others. On March 25, 1997, after the parties submitted post-hearing briefs, the arbitrator declared the proceedings closed and informed the parties that he would render a decision within the next month.

On April 14, 1997, an AAA administrator contacted counsel for the parties to request duplicate copies of the exhibits, explaining that the AAA could not locate the original exhibits. After receiving copies from Parke's counsel, the AAA informed Circle that it was forwarding these copies to the arbitrator. Circle objected that it had not had an opportunity to review Parke's submissions and, on April 18, faxed the AAA to request that the arbitrator "schedule a proceeding at which both sides may review and submit the required Exhibits." The fax further stated: "Circle's Exhibits, which were lost by the Association, are voluminous. Please have the arbitrator submit a list of which exhibits he does not have, so that we do not have to unnecessarily produce Exhibits." Parke's counsel also faxed a letter to the [**5] AAA on the same day, confirming that Parke had supplied only those exhibits originally admitted into evidence and stating that Parke would object to Circle's submission of any documents not admitted at the hearing. The AAA responded to neither party's letter. On April 23, 1997, the arbitrator entered a $ 146,590.00 award in favor of Parke, along with $ 3,144.06 for AAA fees and expenses.

[*108] On May 6, 1997, Circle filed this petition in the Supreme Court of New York, County of Nassau, seeking to vacate the arbitration award on the basis of alleged procedural errors in the arbitrator's handling of the misplaced exhibits. Parke subsequently removed the action to the United States District Court for the Eastern District of New York and cross-moved to confirm the award. Circle then moved to remand the case to state court, claiming lack of diversity of citizenship between the parties. The district court denied Circle's remand motion and ordered Circle to pay $ 2,493.89 to cover the attorneys' fees Parke incurred in opposing the motion. The court also issued an order denying

Circle's petition to vacate the arbitration award and granting Parke's cross-motion to confirm the award.

DISCUSSION [6]**

I. Diversity of Citizenship

A defendant is entitled to remove a state court action to federal court on the basis of diversity of citizenship between the parties, provided that the defendant is not a citizen of the forum state. See 28 U.S.C. § 1441(b) (1994). For purposes of diversity jurisdiction, a corporation is a citizen of its state of incorporation and of the state that serves as its principal place of business. See 28 U.S.C. § 1332(c) (1994). Because it is undisputed that Parke is incorporated in Georgia, removal was proper unless New York qualifies as Parke's principal place of business.

In *Pinnacle Consultants, Ltd. v. Leucadia National Corp.*, 101 F.3d 900, 907 (2d Cir. 1996), this Court held that an inactive corporation's principal place of business is the state in which it last transacted business. *See also Wm. Passalacqua Builders, Inc. v. Resnick Developers S., Inc.*, 933 F.2d 131, 141 (2d Cir. 1991) ("When a corporation has ceased business activity, diversity jurisdiction . . . is determined not only by its state of incorporation, but also by the place it last transacted [**7] business"). Since 1995, Parke has been inactive, engaged only in winding down its affairs in Georgia by hiring an attorney to collect its accounts receivable in that state and in defending itself in this New York action. Although Parke's sole officer and director presently lives in New York and he receives the corporation's mail there, these contacts do not alter its citizenship because the corporation is not transacting business through these activities. Circle's only other possible argument that Parke last transacted business in New York rests on the fact that Parke is engaged in this legal action. In *Passalacqua*, however, this Court did not find that participating in a lawsuit in New York qualifies as "transacting business" for jurisdictional purposes. *See 933 F.2d at 131, 141.* We see no

reason to revisit that issue on the facts presented here.

The joint venture in this case did business only in Georgia, last operated an office in Georgia, and hired lawyers in Georgia to collect its remaining accounts receivable. For diversity purposes, then, Parke is thus a citizen only of Georgia.

II. Award of Attorneys' Fees

Under 28 U.S.C. § 1447 [**8] (c), a district court may award attorneys' fees when it remands a case to state court based on lack of subject matter jurisdiction:

> If at any time before final judgment it appears that the district court lacks subject matter jurisdiction, the case shall be remanded. An order remanding the case may require payment of just costs and any actual expenses, including attorney fees, incurred as a result of the removal.

(Emphasis added.)

Although this statutory language clearly provides for attorneys' fees in connection with an order of remand, nothing in the statute allows for a grant of attorneys' fees where, as here, the defendant successfully resists such an order. It is quite understandable that the statute should provide counsel fees for the grant of a motion to remand an improperly removed [*109] case but not for the denial of such a motion. The commentary to the 1988 revision of the statute emphasizes that its goal is to deter improper removal. See id., Commentary on 1988 Revision by David D. Siegel. Removal is done ex parte and without need of a court order. A defendant removes a case from state court to federal court simply by filing a signed notice of removal [**9] in the United States district court. See 28 U.S.C. § 1446(a). While the simplicity of this procedure facilitates removal, it also exposes a plaintiff to the

possibility of abuse, unnecessary expense and harassment if a defendant removes improperly, thereby requiring plaintiff to appear in federal court, prepare motion papers and litigate, merely to get the action returned to the court where the plaintiff initiated it. Providing for attorneys' fees when granting a motion to remand serves the purpose of deterring improper removal, whereas awarding fees when denying a motion for remand does not.

While it is true that § 1447(c) "affords a great deal of discretion and flexibility to the district courts in fashioning awards of costs and fees," Morgan Guar. Trust Co. v. Republic of Palau, 971 F.2d 917, 924 (2d Cir. 1992), that discretion extends only so far as the statutory mandate. Because the statute does not authorize courts to award attorneys' fees when upholding a removal, the district court erred by requiring Circle to pay Parke's attorneys' fees incurred in successfully opposing the remand.

III. Confirmation of the Arbitration Award [**10]

Circle argues that the arbitrator violated AAA Commercial Arbitration Rules 29, 31 and 32 by failing to designate particular Circle exhibits for duplication and resubmission and by accepting Parke's duplicate exhibits without giving Circle an opportunity to review the submissions.[1] Violation of AAA Rules can, under

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[1]Commercial Arbitration Rules 29, 31 and 32 of the American Arbitration Association state in pertinent part:

> 29. Order of Proceedings and Communications with Arbitrator . . . The arbitrator has the discretion to vary this procedure but shall afford a full and equal opportunity to all parties for the presentation of any material and relevant evidence.
>
> 31. Evidence . . . The parties may offer such evidence as is relevant and material to the dispute and shall produce such evidence as the arbitrator may deem necessary to an understanding and determination of the dispute. . .
>
> . . . All evidence shall be taken in the presence of all of the

certain circumstances, require vacatur of an arbitration award. See 9 U.S.C. §10(a)(3) (requiring vacatur "where the arbitrators were guilty of misconduct . . . in refusing to hear evidence pertinent and material to the controversy; or of any other misbehavior by which the rights of any party have been prejudiced"); id. at § 10(a)(4) (requiring vacatur "where the arbitrators exceeded their powers"). The party seeking to vacate the award bears the heavy burden of demonstrating sufficient grounds for vacatur. See *Folkways Music Publishers v. Weiss*, 989 F.2d 108, 111 (2d Cir. 1993). We hold that Circle has not met this burden here and affirm the confirmation of the arbitration award for substantially the same reasons discussed by the district court.

In brief, we conclude that Circle was given a full opportunity to review Parke's exhibits when those exhibits were entered into evidence at the hearing. Circle has proffered nothing but speculation that the duplicate exhibits submitted to the arbitrator by Parke included any new or improper materials. We further conclude that [*110] Circle has failed to prove that the arbitrator refused to consider material evidence in rendering his decision. The arbitrator, who by Circle's own concession had reviewed some of the exhibits and glanced at others during the hearing, did not respond to Circle's letter requesting the specification of particular exhibits needed for duplication. This failure to respond suggests either that the arbitrator ultimately did not require any of the exhibits in making his decision, or, as the district court noted, "that in the end, either the AAA or the arbitrator did discover the

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arbitrators and all of the parties, except where any of the parties is absent in default or has waived the right to be present.

32. Evidence by Affidavit and Posthearing Filing of Documents or Other Evidence . . . If the parties agree or the arbitrator directs that documents or other evidence be submitted to the arbitrator after the hearing, the documents or other evidence shall be filed with the AAA for transmission to the arbitrator. All parties shall be afforded an opportunity to examine such documents or other evidence.

missing documents and review them before issuing his award." *Circle Indus., USA, Inc. v. Parke Constr. Group*, No. 97-CV-3334(SJ), 1998 WL 713305, at *6 (E.D.N.Y. Oct. 8, 1998). Circle thus has failed to establish a violation of the AAA rules sufficient to require vacatur of [**12] the award.

CONCLUSION

For the foregoing reasons, we affirm the district court's denial of Circle's motion to remand this action and its judgment confirming the arbitration award. We reverse, however, that portion of the district court's order that granted attorneys' fees to Parke pursuant to 28 U.S.C. § 1447(c).

1998 U.S. Dist. LEXIS 22281, *

CIRCLE INDUSTRIES USA, INC.,

Petitioner,

-vs-

PARKE CONSTRUCTION GROUP, INC.,

Respondent.

97 CV 3334 (SJ)

UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF NEW YORK

1998 U.S. Dist. LEXIS 22281

October 8, 1998, Decided October 14, 1998, Filed

DISPOSITION: [*1] Circle's petition to vacate the arbitration award dismissed and Parke's motion for confirmation of the arbitration award granted. Final judgment entered in favor of Parke in the amount of $ 146,590.00 plus interest at the rate of eight percent (8%) per annum from the date of the award to the date of the payment, which represents the award rendered by the AAA.

CORE TERMS: arbitrator, arbitration, choice-of-law, marked, duplicate, hear, joint venture agreement, arbitration award, vacatur, joint venture, misconduct, interstate commerce, post-hearing, confirm, box, confirmation, personally, arbitrator exceeded, fair hearing, consequentially, aforementioned, fundamentally, documentary, violating, inclusion, supervise, progress, venture, inspect, subject matter jurisdiction

COUNSEL: JEFFREY S. DUBIN, ESQ., Garden City, New York, for Petitioner.

Robert Mahoney, Esq., FRIEDMAN SIEGELBAUM, LLP, Roseland, New Jersey, for Respondent.

JUDGES: Sterling Johnson, Jr., U.S.D.J.

OPINIONBY: Sterling Johnson, Jr.

OPINION: MEMORANDUM & ORDER

JOHNSON, District Judge:

Petitioner, Circle Industries USA Inc. ("Circle") commenced this action for vacatur of an arbitrator's award rendered against it and in favor of respondent, Parke Construction Group Inc. ("Parke"). Parke moves to dismiss Circle's motion and to confirm the arbitrator's award. Circle's petition alleges violation of the rules of the American Arbitration Association ("AAA") and argues that these violations constitute "misconduct" under statutory provisions dealing with the vacatur of arbitration awards. Parke counters that the arbitrator's conduct was not improper, [*2] and thus the arbitration award should be confirmed. For the reasons set forth below. Parke's motion is granted.

BACKGROUND

On July 1, 1993, Circle entered into a joint venture agreement with Parke. The agreement related to prospective construction work in Atlanta, Georgia. At the time the instant litigation was initiated, Circle was a corporation organized under the laws of the State of New York, with its principal place of business located in Garden City. New York. Parke is a Georgia Corporation. John T. Bowe ("Bowe"), the Chief Executive Officer of Parke, maintains his residence in New York, and the discussions that resulted in the formation of the joint venture were conducted for the most part in

New York. The venture necessitated frequent interstate travel by Bowe, to Georgia, to supervise the joint venture's progress. Eventually, a dispute arose between the parties. The joint venture agreement provides that "all claims and controversies" that arise in connection with the joint venture "shall be settled by binding arbitration." (Declaration of Robert Mahoney "Mahoney Decl." Ex. A, P 11). The joint venture agreement goes on to specify the AAA as the designated arbitrators [*3] to resolve any such controversies. In accordance with the joint venture agreement, the dispute was submitted to arbitration.

The arbitrator conducted five days of hearings, the last of which took place on November 11, 1996. During the course of the hearings, the arbitrator heard testimony from seven witnesses and received into evidence twenty-eight exhibits offered by Circle and twenty-seven exhibits offered by Parke. Circle's exhibits consisted of three and one-half boxes of documents. Parke presented one half of a box of documents. The arbitrator personally marked each of the exhibits as they were submitted. He reviewed certain documents as they were introduced and gave a cursory glance at others.

At the conclusion of the hearings, a briefing schedule was established by the arbitrator. It was agreed that the four boxes of exhibits would be kept at the AAA offices for use by the parties while they drafted their briefs. It was further agreed that after the post-hearing briefs were submitted, the AAA would transmit the four boxes of exhibits to the arbitrator so that they would be available to him while considering and drafting his award.

The initial post-hearing briefs were submitted [*4] by the parties in December of 1996. Reply briefs were filed in February of 1997. On March 25, 1997, counsel for both parties were notified by the AAA that the arbitrator had declared the proceedings closed, and would render a decision by April 24, 1997.

On April 14, 1997, an AAA case administrator contacted counsel

for both parties and stated that the arbitrator was requesting duplicate copies of each side's exhibits. According to an affidavit by Circle's counsel, the case administrator explained to him by telephone that she could not locate "any of the exhibits." (Affidavit of Jeffrey S. Dubin "Dubin Aff." P 21). Counsel for Parke agreed to supply duplicate copies of Parke's exhibits. On April 17, 1997, the AAA informed Circle's counsel that it had received Parke's duplicates and intended to transmit them to the arbitrator. (Dubin Aff. Ex. D). On April 18, Circle's counsel sent the following fax to the AAA:

> Circle Industries USA, Inc., objects to the submission of so called "Exhibits" to the arbitrator by Parke Construction that have not been reviewed by Circle Industries USA, Inc. The arbitrator is respectfully requested to schedule a proceeding at which both sides may review [*5] and submit the required Exhibits.
>
> Circle's Exhibits, which were lost by the Association, are voluminous. Please have the arbitrator submit a list of which exhibits he does not have, so that we do not have to unnecessarily produce Exhibits.

(Dubin Aff. Ex. E). Parke's counsel, who had already forwarded duplicates of his client's exhibits, also faxed a letter to the AAA on April 18, 1997. That letter stated:

> I received your letter of April 15, 1997. I would like to confirm that the only documents which the arbitrator has requested are those which were marked into evidence at the hearing. There were numerous other documents, which were not marked as exhibits. I would object to the introduction of any of those documents to the arbitrator at this time. My records indicate that Circle introduced Twenty-eight exhibits (C-1 to C-28). Please insure that

only the marked exhibits are transmitted to the arbitrator.

(Mahoney Decl. Ex. H).

The AAA did not respond to either of the two communications by counsel. Rather, on April 23, 1997, the arbitrator entered an award in favor of Parke in the amount of $ 146,590.00 plus $ 3,144.06 for the fees and expenses of the AAA.

Circle [*6] now petitions this Court to vacate the arbitrator's award on two grounds. First, Circle argues that by accepting documents from Parke that were never reviewed by Circle, the arbitrator violated AAA Rules 31 and 32.[1] Second, by not allowing Circle the opportunity to resubmit its exhibits, Circle contends that the arbitrator refused to hear material evidence, thereby violating AAA Rules 29 and 31.[2] Circle further argues

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[1]Rules 31 and 32 of the American Arbitration Association state in pertinent part:

31. Evidence... All evidence shall be taken in the presence of all the arbitrators and all of the parties, except where any of the parties is absent, in default or has waived the right to be present.

32. Evidence by Affidavit and Posthearing Filing of Documents or Other Evidence... If the parties agree or the arbitrator directs that documents or other evidence be submitted to the arbitrator after the hearing, the documents or other evidence shall be filed with the AAA for transmission to the arbitrator. All parties shall be afforded an opportunity to examine such documents or other evidence. [*7]

[2]AAA Rules 29 and 31 state in pertinent part:

29. Order of Proceedings and Communications with Arbitrator ... The arbitrator has the discretion to vary this procedure but shall afford a full and equal opportunity to all parties for the presentation of any material and relevant evidence.

31. Evidence ... The Parties may offer such evidence as is relevant and material to the dispute and shall produce such evidence as the arbitrator

that these alleged violations of AAA rules translate into two discrete statutory grounds justifying vacatur of the arbitrator's award: (1) "misconduct in procuring the award" pursuant to New York CPLR 7511(b)(1)(i); and (2) "Exceeding of powers granted to the arbitrator" pursuant to CPLR 7511 (b)(1)(iii).[3]

In response to Circle's petition, Parke moves to dismiss Circle's petition and for confirmation of the arbitrator's award. Parke argues that the AAA rules that give each party a right to review evidence submitted by their opponent are inapposite here. Those rules, Parke asserts, were designed to address the presentation of new evidence, meaning evidence that had [*8] not already been submitted during the hearings. By contrast, the arbitrator in the case at bar merely requested duplicates of evidence that had already been submitted and personally marked into evidence by the arbitrator at the hearings. Given that the parties were simply asked to resubmit copies of documents already marked into evidence, Parke states there was no need to allow each party to examine the other party's exhibits. Parke notes also that Circle has not put forth any evidence to suggest that Parke attempted to sneak any documents into evidence.

Regarding Circle's contention that the arbitrator's actions amount to a refusal to hear its evidence, Parke responds that Circle had ample opportunity to present its evidence and witnesses over the five days of hearings and in the post-hearing briefs. Moreover, Parke asserts that the only reasonable inference that can be drawn from the arbitrator's decision not to pursue Circle after it initially declined to produce duplicates of its documents, is that the arbitrator did not need to review Circle's exhibits any further in

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may deem necessary to an understanding and determination of the dispute.

[3]The joint venture agreement states in P 11. E that "any arbitration proceeding taking place as a consequence of this Agreement shall be conducted according to the rules then obtaining of the American Arbitration Association."

order to render his award.

DISCUSSION

I. Applicable Law

"The Federal Arbitration Act applies when [*9] there is federal subject matter jurisdiction, i.e., diversity jurisdiction . . . and when the contract calling for arbitration 'evidences a transaction involving interstate commerce'" *Barbier v. Shearson Lehman Hutton* 948 F.2d 117, 120 (2d Cir. 1991) (citing *Moses H. Cone Memorial Hosp. v. Mercury Constr. Corp.*, 460 U.S. 1, 25 n.32, 74 L. Ed. 2d 765, 103 S. Ct. 927 (1983)).

In the case at bar, both of these criteria have been satisfied. First, federal subject matter jurisdiction is present here because there is diversity of citizenship between the respective litigants. See *Circle Indus. USA, Inc. v. Parke Constr. Group, Inc.*, 97 CV 3334 (order dated Sept. 15, 1997). The second requirement, that the contract relate to a transaction involving interstate commerce, has likewise been met. In *Pennsylvania Eng. Corp. v. Islip Resource Recovery Agency*, 710 F. Supp. 456, 460 (E.D.N.Y. 1989), the Court held that a construction project to be built on Long Island, New York by a Delaware corporation "affected interstate commerce." Similarly, in the instant case, Circle, a New York corporation entered into a joint venture with Parke, a Georgia [*10] corporation to do construction work in Atlanta, Georgia. Furthermore, the venture necessitated frequent interstate travel on the part of Bowe between New York and Georgia, to supervise the joint venture's progress. Thus the joint venture agreement created "an ongoing commercial relationship involving parties from different states." Mosca v. Doctors Assocs. Inc., 852 F. Supp. 152, 154 (E.D.N.Y. 1993). Consequently, the joint venture affected interstate commerce within the meaning of the Federal Arbitration Act (the "F.A.A.").

Notwithstanding the fact that the aforementioned standards were

met, it does not necessarily follow that the F.A.A. is the governing law in this case. In its brief, Circle cites *Volt Info. Sciences, Inc. v. Board of Trustees of the Leland Stanford Jr. Univ.*, 489 U.S. 468, 479, 103 L. Ed. 2d 488, 109 S. Ct. 1248 (1989) for the proposition that, in passing the F.A.A., it was not Congress' intent to nullify an agreement by the contracting parties to arbitrate their dispute under the local arbitration rules of a particular state. In that case, the Supreme Court applied state arbitration law, rather than the F.A.A.. However, Circle [*11] fails to note that in holding that the parties' agreement incorporated California state arbitration rules, the *Volt* decision relied on the California state court's construction of the parties' agreement. Id. at 474-76. In the present action, by contrast, this Court must interpret the parties' contract de novo, without a state court's prior interpretation. How courts should deal with such a situation, a question left open in *Volt*, was decided by the Supreme Court in *Mastrobuono v. Shearson Lehman Hutton, Inc.*, 514 U.S. 52, 131 L. Ed. 2d 76, 115 S. Ct. 1212 (1995).

In *Mastrobuono*, the parties had included a clause in their contract, providing that any disputes arising out of the contract be submitted to arbitration. The contract also contained a clause stating that it was "governed by the laws of the State of New York." Id. at 58 n.2. Shearson argued that this choice-of-law clause evidenced an intent by the parties to incorporate not only principles of New York State substantive law, but also New York State law on arbitration proceedings. The Supreme Court rejected this interpretation. The Court stated:

> We think [*12] the best way to harmonize the choice-of-law provision with the arbitration provision is to read [the phrase] 'the laws of the State of New York' to encompass substantive principles that New York courts would apply, but not to include special rules limiting the authority of arbitrators. Thus the

> choice-of-law provision covers the rights and duties of the parties, while the arbitration clause covers arbitration; neither sentence intrudes upon the other.

Mastrobuono, at 63-64. Further, the Court distinguished Volt and explained that "In *Volt*, we did not interpret the contract de novo. Instead we deferred to the California court's construction of its own state's law . . ." Id. at 60[4]

In short, *Mastrobuono* teaches that the mere inclusion in a contract of a standard choice-of-law clause will not be construed as an intent to override the F.A.A. in favor of state arbitration rules. Indeed, recent Court of Appeals decisions in this Circuit have followed the instruction of *Mastrobuono*. *See Nat'l Union Fire Ins. Co. v. Belco Petroleum Corp.*, 88 F.3d 129, 132 (2d Cir. 1996) (declining to read a choice-of-law clause in a contract [*13] as incorporating New York State law on arbitration), *Doctor's Assocs. Inc. v. Distajo*, 107 F.3d 126, 131 (2d Cir.) ("even the inclusion in the contract of a general choice-of-law clause does not require application of state law to arbitrability issues, unless it is clear that the parties intended state arbitration law to apply on a particular issue"), cert. denied, 522 U.S. 948, 118 S. Ct. 365, 139 L. Ed. 2d 284 (1997).

The joint venture entered into by Circle and Parke is analogous to the contracts in the cases cited above. The agreement contains an arbitration provision as well as a separate, broadly worded choice-of-law clause. n4 Consistent with *Mastrobuono* and the Second Circuit caselaw subsequent to it, this Court declines to find in this broad choice-of-law clause a clear intent to incorporate

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[4]The choice-of-law clause, contained in P 22 provides: "this joint venture agreement shall be interpreted in accordance with, and the rights of the parties hereto shall be determined by, the laws of the State of New York."

New York State arbitration law. Therefore, this Court finds that the F.A.A. is the applicable law in this case.

II. Standard For Vacatur Under The F.A.A.

Having concluded that the statute governing the instant case is the Federal Arbitration Act, this Court must analyze Circle's arguments in terms of that statute. Section 10(a) of the F.A.A. states in pertinent part:

> (a) In any of the following cases the United States court in and for the district wherein the award was made may make an order vacating the award upon the application of any party to the arbitration-
>
> . . .
>
> (3) Where the arbitrators were guilty of misconduct in refusing to postpone the hearing, upon sufficient cause shown, or in refusing to hear evidence pertinent and material to the controversy; or of any other misbehavior by which the rights of any party have been prejudiced.
>
> (4) Where the arbitrators exceeded their powers.

Circle in essence alleges that the arbitrator's acts and omissions in this case constitute both "misconduct in refusing to hear evidence" under § 10(a)(3) as well as exceeding his powers in violation of § 10(a)(4).

"Under the F.A.A., the validity of an [arbitration] award is subject to attack only on those grounds listed in § 10, and the policy of the F.A.A. requires [*15] that the award be enforced unless one of those grounds is affirmatively shown to exist." *Wall Street Assoc. v. Becker Paribas Inc.*, 27 F.3d 845, 849 (2d Cir. 1994).

Furthermore, "the showing required to avoid summary confirmation of an arbitration award is high, and a party moving to vacate that award has the burden of proof" *Willemijn Houdstermaatschappij, BV, v, Standard Microsystems Corp.*, 103 F.3d 9, 12 (2d Cir. 1997). *See Folkways Music Publishers v. Weiss,* 989 F.2d 108, 111 (2d Cir. 1993) ("the party challenging the award bears a heavy burden of proof"). Courts have pointed out that "under Second Circuit jurisprudence in this area, court review is very narrowly circumscribed to avoid undermining the raison d'etre of arbitration, namely, settling disputes efficiently and avoiding long and expensive litigation." *Matter of the Arbitration between Zahid Ashraf and Shahida Zahid and Republic New York Sec. Corp.*, 14 F. Supp. 2d 461, 1998 WL 427616, at *3 (S.D.N.Y. July 28, 1998) (citing *Folkways Music Publishers v. Weiss,* 989 F.2d at 111). Finally, the Second Circuit has noted that "If there [*16] is even a barely colorable justification for the outcome reached, the court must confirm the arbitration award." *Houdstermaatschappij*, 103 F.3d at 13. Mindful of these principles, the Court now turns to consider the motion to vacate and confirm the arbitration award.

A. Refusal To Hear Evidence

In evaluating vacatur motions for "refusing to hear evidence" under § 10(a)(3), courts have stated that "an arbitration award will be vacated on this ground only if the losing party shows that he was denied a fundamentally fair hearing and consequentially suffered prejudice." *Grinnell Hous. Dev. Fund Corp. v. Local 32 B-32J SEIU*, 767 F. Supp. 63, 67 (S.D.N.Y. 1991). The cases where courts have found that a petitioner had been denied "fundamental fairness," because the arbitrators had refused to listen to testimony, typically involved an overt and express refusal by the arbitrators to consider evidence. *See Tempo Shain Corp. v. Bertek Inc.*, 120 F.3d 16, 19 (2d Cir. 1997).

Here, by contrast, Circle has not demonstrated that such an express refusal to hear or consider its evidence occurred. Five days

of hearings were conducted. During these [*17] proceedings, the arbitrator accepted Circle's documentary evidence at the hearings and looked at the evidence as testimony relating to it was given. The two sets of post-hearing briefs provided Circle with an additional opportunity to discuss the significance of its documentary exhibits. Circle has failed to provide evidence demonstrating that it was denied a "fundamentally fair hearing and consequentially suffered prejudice." *Grinnell*, 767 F. Supp. at 67.

Furthermore, in the case at bar, Circle has not made the "high showing" it must in order to warrant vacatur of the arbitrator's award. *Houdstermaatschappij*, 103 F.3d at 12. Indeed, Circle has introduced no evidence, other than its own speculation, to support its claim that the arbitrator intended to defer examination of significant documentary evidence to a time other than the hearing. Moreover, it is entirely possible that in the end, either the AAA or the arbitrator did discover the missing documents and review them before issuing his award. However, without an affirmative showing that the arbitrator turned a blind eye to evidence that could have changed his mind -- Circle has failed to sufficiently [*18] establish "misconduct for refusal to hear evidence" under either § 10(a)(3) or AAA rules 29 and 31.

B. Exceeding Of Powers

Similarly, Circle argues pursuant to § 10(a)(4) that the arbitrator exceeded his powers by violating AAA rules 31 and 32. Specifically, Circle states that the aforementioned AAA rules were violated by the arbitrator's acceptance of Parke's duplicates without first allowing Circle to inspect them. However, Circle can only prevail on this basis "if it is clearly established that the arbitrator has exceeded his authority or imposed his or her own brand of justice." *Matter of Carina Int'l Shipping*, 961 F. Supp. 559, 564 (S.D.N.Y. 1997).

In the instant action Circle has failed to "clearly establish" that AAA rules 31 and 32 were indeed violated. Id. Importantly, the

documents were duplicates of exhibits entered into evidence at the hearing which the arbitrator saw and personally marked. There was, thus, no need for Circle to inspect them a second time. Circle does not buttress, with any specific evidence, its implicit suggestion that Parke surreptitiously introduced new evidence that had not been subject to cross-examination. Nor does [*19] Circle address Parke's argument that the arbitrator would have recognized a document, which had not been previously marked into evidence and about which there had been no testimony. Furthermore, the idea that Parke would attempt to sneak in new documents seems particularly far-fetched in light of the fact that counsel for Parke expressly cautioned the arbitrator in his April 18, 1997 fax to accept only copies of documents that had been previously marked into evidence.

Under the circumstances of this case, this Court cannot conclude that AAA rules 31 and 32 were violated. Having found that no AAA rules were broken, this Court finds that Circle has likewise failed to establish that the arbitrator exceeded his powers within the meaning of § 10(a)(4).

CONCLUSION

For the reasons outlined above, Circle's petition to vacate the arbitration award is hereby dismissed and Parke's motion for confirmation of the arbitration award is hereby granted. Accordingly, final judgment is hereby entered in favor of Parke in the amount of $ 146,590.00 plus interest at the rate of eight percent (8%) per annum from the date of the award to the date of the payment, which represents the award rendered [*20] by the AAA.

SO ORDERED.
Dated: Brooklyn, New York
October 8, 1998
Sterling Johnson, Jr.
U.S.D.J.

Supreme Court, U.S.
FILED
NOV 8 1999
CLERK

(2)

In The
SUPREME COURT OF THE UNITED STATES
No. 99-639

CIRCLE INDUSTRIES USA, INC.,
Petitioner,

v.

PARKE CONSTRUCTION GROUP, INCORPORATED,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS FOR
THE SECOND CIRCUIT

RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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21pp

QUESTION PRESENTED

What is the "principal place of business" of an inactive corporation for purposes of determining its citizenship pursuant to 28 U.S.C. § 1332 and 28 U.S.C. § 1441?

LIST OF PARTIES TO THE PROCEEDING

In accordance with Rule 29.6, Parke Construction Group, Incorporated is not publicly traded, nor does it have a corporate parent. No publicly traded corporation owns10% or more of its stock.

TABLE OF CONTENTS

Question Presented i

List of Parties to the Proceeding ii

Table of Authorities v

Basis for Supreme Court Jurisdiction 1

Statutory Provisions Involved 2

Statement of Facts 4

Circle's Petition for
Certiorari Should Be Denied 8

Conclusion 16

TABLE OF AUTHORITIES

Cases

Athena Automotive, Inc. v. DiGregorio,
166 F.3d 288 (4th Cir. 1999) 9

Circle Industries USA, Inc. v.
Parke Construction Group, Incorporated,
183 F.3d 105 (2d Cir. 1999) 14

Harris v. Black Clawson Co.,
961 F.2d 547 (5th Cir. 1992) 10

Pinnacle Consultants, Ltd. v. Leucadia National Corp.,
101 F.3d 900 (2d Cir. 1996) 9

Wm. Passalacqua Builders, Inc. v. Resnic Developers S., Inc.,
933 F.3d 131 (2d Cir. 1991) 9

Statutes and Court Rules

28 U.S.C. § 1254(1) 10

28 U.S.C. § 1332 10

28 U.S.C. § 1332 (a) 9

28 U.S.C. § 1332 (c) 9

28 U.S.C. § 1441 i

28 U.S.C. § 1441(a) 2

28 U.S.C. § 1441(b) 3

28 U.S.C. §1332(c)(1) 8

Sup. Ct. R. 10 15

Sup. Ct. R. 10(a). 8

Other authorities

Wright, Miller & Cooper,
Federal Practice and Procedure:
Jurisdiction 2d § 3625. 12

BASIS FOR SUPREME COURT JURISDICTION

The Judgment and Decree of the United States Court of Appeals for the Second Circuit was issued on July 15, 1999. The basis for jurisdiction in this Court is 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

28 U.S.C. § 1332 (a) provides:

> The district courts shall have original jurisdiction of all civil actions where the matter in controversy exceeds the sum or value of $75,000, exclusive of interest and costs, and is between –
>
> (1) citizens of different States.

28 U.S.C. § 1332 (c) provides:

> For purposes of this section and section 1441 of this title –
>
> (1) a corporation shall be deemed to be a citizen of any State by which it has been incorporated and of the State where it has its principal place of business, . . .

28 U.S.C. § 1441(a) provides:

> Except as otherwise expressly provided by Act of Congress, any civil action brought in a State court of which the district courts of the United States have original jurisdiction, may be removed by the defendant or the defendants, to the district court of the United States for the district and division embracing the place where such action is pending. For purposes of removal

under this chapter, the citizenship of defendants sued under fictitious names shall be disregarded.

28 U.S.C. § 1441(b) provides:

> Any civil action of which the district courts have original jurisdiction founded on a claim or right arising under the Constitution, treaties or laws of the United States shall be removable without regard to the citizenship or residence of the parties. Any other such action shall be removable only if none of the parties in interest properly joined and served as defendants is a citizen of the State in which such action is brought.

STATEMENT OF FACTS

This action arises out of a dispute between Circle and Parke with regard to the performance of a Joint Venture Agreement between the parties. The Parke Construction/Circle USA Joint Venture worked on several construction projects in the Atlanta metropolitan area, the largest one being at University Apartments, part of the Atlanta Olympic Village project being built for the 1996 Summer Olympic Games.

After Circle essentially pushed Parke out of the Joint Venture, Parke filed an action in the United States District Court for the Northern District of Georgia seeking injunctive relief. The Court denied Parke's application for equitable relief and, as a result, it voluntarily dismissed the action and the parties agreed to resolve their disputes through arbitration before the American Arbitration Association in accordance with the terms of the Joint Venture Agreement.[1]

The arbitration was heard over five hearing days in the fall of 1996. At the hearings, the arbitrator heard from seven witnesses. Circle introduced 28 exhibits into evidence and Parke introduced 27. The arbitrator took possession of these exhibits, personally marking each document into evidence. The arbitrator reviewed each exhibit while testimony relating to the exhibit was being taken. After the hearing, the arbitrator directed each party to submit post-hearing briefs and, approximately one month later, reply briefs. In their briefs, the parties discussed and analyzed the evidence presented at the

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[1] Although the Joint Venture Agreement envisioned arbitration before three arbitrators, the parties agreed to proceed with one. The arbitration was conducted in New York City because the Joint Venture Agreement so provided.

hearing, both the witness testimony and the exhibits. After the submission of the briefs, the arbitrator declared the hearings closed on March 25, 1997. Thus, pursuant to AAA Commercial Arbitration Rule 41, the arbitrator had until April 24, 1997, 30 days after the close of the hearings, to render an award.

Some time prior to April 14, 1997, counsel received a telephone request from the AAA case administrator that the parties submit a duplicate set of exhibits which had been marked at the arbitration hearings. Parke submitted an extra copy of exhibits. Circle demanded that the request be put in writing, and the arbitration administrator complied. The additional copy of Parke's exhibits were forwarded to the arbitrator on April 14, 1997. The arbitration administrator acknowledged receipt of Parke's exhibits on April 17, 1997. By way of letter dated April 18, 1997, Parke's counsel cautioned the administrator that only those documents admitted into evidence should be submitted to the arbitrator.

> I would like to confirm that the only documents which the arbitrator has requested are those which were marked into evidence at the hearing. There were numerous other documents which were not marked as exhibits. I would object to the introduction of any of those documents to the arbitrator at this time. My records indicate that Circle introduced twenty-eight exhibits (C-1 to C-28). Please insure that only the marked exhibits are transmitted to the arbitrator.

Also on April 18, 1997, Circle objected to the submission of copies of the exhibits, demanding that the arbitrator convene a hearing for the parties to review and submit the additional copy

of the arbitration exhibits. Circle also requested that the arbitrator provide a list of the exhibits he did not have, so Circle would not have to produce duplicate exhibits.

On April 23, 1997, the arbitrator rendered an award in favor of Parke in the amount of $146,590, plus 8% post-award interest. The arbitrator also divided his compensation and the AAA's administrative fees 70% to Circle and 30% to Parke.

On May 6, 1997, Circle filed an action in the Supreme Court of New York, Nassau County seeking to vacate the arbitration award. On June 5, 1997, Parke filed a Notice of Removal, removing the action to the United States District Court for the Eastern District of New York in accordance with 28 U.S.C. § 1441. Parke removed the case because there was diversity jurisdiction in the District Court pursuant to 28 U.S.C. § 1332(a).

On August 7, 1997, Circle filed a motion to remand the suit to New York state court. Circle conceded that Parke was a Georgia corporation, but claimed that its principal place of business was New York and, thus, there was no diversity between the parties, since Circle's state of incorporation and principal place of business was New York. Circle's contention that Parke's principal place of business was in New York was based upon the hearsay statements from unidentified individuals that Parke's mail was being forwarded to its president, John Bowe, in New York and that certain settlement negotiations regarding other disputes arising from the Joint Venture's projects had taken place in New York. In his responsive Declaration, Mr. Bowe explained that the New York address mentioned in Circle's papers was for another corporation which he owned, which had no other affiliation with Parke and that the settlement negotiations in question had

in fact been conducted in Georgia. Mr. Bowe also explained that Parke's business had only been conducted in Georgia. Based upon the papers submitted, the District Court concluded that Parke's principal place of business was in Georgia and, thus, there was diversity jurisdiction.

In the meantime on June 13, 1997 Parke filed a motion to dismiss Circle's complaint and to confirm the arbitration award. Circle opposed the motion, arguing that the award was invalid because the arbitrator had violated AAA rules in the procedure used for the submission of additional copies of the parties' exhibits and, thus, did not receive a fair hearing. By way of Memorandum and Order dated October 8, 1998, the District Court granted Parke's motion and confirmed the arbitration award. Judgment was entered in accordance with the Court's Memorandum and Order on October 22, 1998. (Petitioner's App., A11) The District Court's judgment was affirmed by the United States Court of Appeals for the Second Circuit by way of Opinion and Order dated July 15, 1999.

CIRCLE'S PETITION FOR CERTIORARI SHOULD BE DENIED

Circle argues that the Court should grant its petition for certiorari because there is a split among the Circuits as to how the citizenship of an inactive corporation should be determined. *See* Sup. Ct. R. 10(a). However, regardless of which test were applied to the facts here, Circle would still lose because there is diversity between Circle and Parke under the Second Circuit test, under the Third Circuit test, and under the Fourth and Fifth Circuit tests.

Circle argued below that there was no federal jurisdiction because the parties were not diverse. Circle is a New York corporation with its principal place of business in New York. Parke is a Georgia corporation, formed for the sole purpose of entering into a joint venture agreement with Circle for construction projects in Atlanta. Parke's registered office was in Georgia and its registered agent resided in Georgia. After the parties last conducted construction work in late 1995, Parke closed its office in Georgia, its registered agent moved out of Georgia, so all of Parke's mail was forwarded its president, John Bowe, in New York. Since late 1995, Parke's only activity has been collecting various accounts in Georgia and prosecuting its claims against Circle.

For purposes of diversity jurisdiction and for removal, a corporation has two citizenships: it is a citizen of the state of its incorporation and the state of its principal place of business. 28 U.S.C. §1332(c)(1). Circle is a New York corporation with principal place of business in New York. Parke is a Georgia corporation. So long as Parke's principal place of business is somewhere other than New York, however "principal place of

business" is determined, the parties are diverse and there was jurisdiction in the District Court.

Both the Second and Third Circuits have a "bright line" test. In the Second Circuit, where this case was decided, an inactive corporation's principal place of business is the state where it last transacted business. Participating in a lawsuit does not constitute "transacting business" for jurisdictional purposes. *Pinnacle Consultants, Ltd. v. Leucadia National Corp.*, 101 F.3d 900, 907 (2d Cir. 1996); *Wm. Passalacqua Builders, Inc. v. Resnic Developers S., Inc.*, 933 F.3d 131, 141 (2d Cir. 1991). In *Passacqua Builders*, the court reasoned that since 28 U.S.C. § 1332(a) provided that a corporation is a citizen of both its place of its incorporation and its principal place of business, a court must consider both places to determine its citizenship for diversity purposes.

> Both the state of incorporation and the principal place of business should be considered in deciding whether diversity jurisdiction is present. To allow inactive corporations to avoid inquiry into where they were last active would give them a benefit Congress never planned for them, since under such a rule a defunct corporation, no matter how local in character, could remove a case to federal court based on its state of incorporation.

Passalacqua Builders, 933 F.2d at 141.

In the Third Circuit, an inactive corporation is a citizen only of its state of incorporation. *Midlantic National Bank v. Hansen*, 48 F.3d 693, 696 (3d Cir. 1995). The Third Circuit reasoned that since a corporation's "principal place of business"

is determined by its business activities, and an inactive corporation, by definition, has no business activities, an inactive corporation cannot have a principal place of business. *Midlantic*, 48 F.3d at 696.

The Fourth and Fifth Circuits have adopted a test based upon a consideration of the totality of the corporation's business activities. *Athena Automotive, Inc. v. DiGregorio*, 166 F.3d 288, 290-291 (4th Cir. 1999); *Harris v. Black Clawson Co.*, 961 F.2d 547, 550-551 (5th Cir. 1992). The Fourth Circuit in *Athena* followed the Fifth Circuit's reasoning in *Harris*. In *Harris*, the Fifth Circuit held that the Second Circuit's "bright line" test, that an inactive corporation's place of last business activity is its principal place of business, might lead to an unintended result, so that a "total activity" test should be used instead.

> To adopt a rule that the place of an inactive corporation's last business activity is *relevant* to determining its citizenship for subject matter jurisdiction purposes, especially where that activity took place in its last principal place of business is perfectly consistent with the "total activity" test. A rule that the place of an inactive corporation's last activity is *always determinative* of its citizenship for diversity purposes, however, has the potential to produce the odd result that an inactive corporation may be held to have its principal place of business in a jurisdiction in which it would never have been held to have its principal place of business when it was active, Surely Congress cannot have intended to produce this result either. Thus, a wholesale

> adoption of the "last activity test" would appear to be at odds with the "total activity" test. Therefore, we hold that, while the place of an inactive corporation's last business activity is relevant to determine its principal place of business, it is not dispositive.

Harris, 961 F.2d at 551 (emphasis in original). The Fifth Circuit went to hold that when a corporation has been inactive for a substantial period of time, like five years in that case, the place where its last business activity took place is not its principal place of business, and, in fact, the corporation may have no principal place of business. *Id.*[2]

The conflict among the Circuits is not as stark as Circle would have the Court believe. There is a difference between the Second and Third Circuits as to whether an inactive corporation can or must have a "principal place of business" for diversity purposes. The Second Circuit has held that an inactive corporation *must* have a principal place of business, and that principal place of business is where the corporation last conducted business. The Third Circuit has held that an inactive corporation necessarily *can't* have a principal place of business. However, the "total activity" test adopted by the Fourth and Fifth Circuits, while differently worded than the Second Circuit's test and expressly rejecting the Second Circuit's

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[2] Both in *Harris* and in *Athena*, the courts declined to apply the tests they had enunciated to find where the inactive corporation's principal place of business was, or to decide whether a corporation *must* have a principal place of business. Instead, they found that it was sufficient to rule that the inactive corporation's citizenship, whatever it might be, was something other than the citizenship of its adversary. *See Harris*, 961 F.2d at 551; *Athena*, 166 F.3d at 291-292.

reasoning, leads to the same result as the Second Circuit test in practice.

In determining where the corporation last conducted business for purposes of determining its "principal place of business", the Second, Fourth and Fifth Circuits take into account where the corporation actually did business, which can include winding up the affairs of the corporation if that is a significant "activity". *Compare Circle Industries U.S.A., Inc. v. Parke Construction Group, Inc.* 183 F.3d 105, 108 (2d Cir. 1999); *Athena Automotive*, 166 F.3d at 291-292; *Harris,* 961 F.2d at 551. Further, while the Second Circuit has held that an inactive corporation *must* have a principal place of business, and the Third Circuit has held that an inactive corporation *can't* have a principal place of business, the Fourth and Fifth Circuits have studiously, and intentionally, avoided deciding this issue. *Athena Builders*, *id.*; *Harris*, *id.* Obviously, there cannot be a split among the Circuits on an issue that two of the Circuits have not decided.

The standard proposed by Circle is actually different from that adopted by any of the Circuits. Rather than analyzing the totality of the inactive corporation's recent business activities, as the Second, Fourth and Fifth Circuits do, Circle proposes that only the very last action taken by the inactive corporation, the participation in the subject civil action, be considered for purposes of establishing its "principal place of business". *See* Petition, at 8-9. Indeed, Circle's standard is contrary to 40 years of existing precedent regarding the determination of the principal place of business of active corporations. When determining the "principal place of business" of an active corporation, there are different analyses used, depending upon the particular facts and circumstances, but each of those analyses considers the whole of the

corporation's structure and activities. *See generally* Wright, Miller & Cooper, Federal Practice and Procedure: Jurisdiction 2d § 3625.

> As is obvious from this discussion the determination of a corporation's principal place of business depends on the facts of each case. No simple test or single element is controlling. Rather, the courts must consider the entire corporation, its purposes, the activities it carries out, and the extent and location of these activities. The weight to be given these elements, however, is a question of law.

Id. at p. 637. In contrast, Circle proposes a rule whereby a single action, the participation in the subject lawsuit, determines an inactive corporation's principal place of business, rather than an analysis of the totality of the inactive corporation's recent activities.

By definition, under Circle's proposal, the inactive corporation's "principal place of business" would be the forum state, regardless of any other activities the corporation may or may not have been involved in, and regardless of when or where those activities may have taken place. The practical effect of this rule, that the inactive corporation is, by definition, a citizen of the forum state, would be to preclude removal under diversity jurisdiction if the inactive corporation were a defendant. *See* 28 U.S.C. § 1441(b). Moreover, if the suit were filed in the same jurisdiction as where the active corporation was either incorporated or had its principal place of business, there would be no diversity since the inactive corporation would assume the citizenship of the forum, where the adversary party was also a citizen.

Granting Circle's petition for a writ of certiorari in this case would be inappropriate because, regardless of how this Court were to resolve the conflict among the Circuits, Circle would still lose, because there would still be diversity between Circle and Parke. Parke's "principal place of business", if it had one, would not be in New York under any of the tests articulated by the Courts of Appeal. The Second Circuit correctly applied its own test and found that there was diversity between Circle and Parke. Circle is a New York corporation, with principal place of business in New York. Parke is a Georgia corporation, whose last business activities were conducted in Georgia. Thus, its principal place of business was in Georgia.

If the Court were to adopt the Third Circuit's test, the parties would still be diverse. Since Parke had ceased conducting business as of the time that this action was filed, it had no principal place of business. Parke is incorporated in Georgia. This citizenship is different from Circle's.

If the test of the Fourth and Fifth Circuits were used, there would still be diversity. As the Second Circuit noted, although Parke's mail was being forwarded to New York and it was participating in this litigation in New York, this did not constitute "transacting business". 183 F.3d at 108. The joint venture did business only in Georgia, last operated an office in Georgia, and hired attorneys in Georgia to collect its accounts receivable in Georgia. *Id.* Under all of the facts and circumstances, the weight of Parke's *business* activities was in Georgia. Thus, if Parke had a principal place of business, it was in Georgia. Again, the parties would be diverse and there would be jurisdiction.

Upon closer examination, however, it appears that Circle's real objection is to the Second Circuit's factual determination that, under the circumstances of this case, participating in this lawsuit did not constitute "transacting business" for purposes of determining Parke's principal place of business. The Second Circuit took into account that Parke had not been participating in any construction work since 1995 and, since that time, had been winding up its affairs in Georgia. Essentially, Circle contends that the Second Circuit improperly weighed the facts of the case, since it took into account the evidence in the record that all of Parke's activities in winding up its affairs took place in Georgia. This makes this matter particularly inappropriate for granting its petition for certiorari. *See* Sup. Ct. R. 10 ("A petition for a writ of certiorari is rarely granted when the asserted error consists of erroneous factual findings or the misapplication of a properly stated rule of law.")

Taking Circle's position as a whole, it is clear that its petition for certiorari must be denied. It proposes a rule of law which is contrary to all existing precedent. Further, regardless of whether the analysis of the Second, Third, or Fourth and Fifth Circuits is applied to the facts presented here, Circle would lose. There would be diversity between the parties. While there might be an appropriate case presented in the future, after further development in the Courts of Appeal, for this Court to decide the question of the principal place of business of an inactive corporation, this is not the case in which to make that determination.

CONCLUSION

For the reasons set forth above, Circle's petition for certiorari should be denied.

Respectfully submitted,

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No. 99-639

In The
Supreme Court of the United States
October Term, 1999

CIRCLE INDUSTRIES USA, INC.,
Petitioner,

v.

PARKE CONSTRUCTION GROUP, INCORPORATED,
Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

REPLY BRIEF IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI

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REPLY BRIEF IN SUPPORT OF PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

RULE 29.6 STATEMENT

Petitioner, Circle Industries USA, Inc., does not have a parent corporation or a publicly held company that owns 10% or more of its stock.

TABLE OF CONTENTS

Page

RULE 29.6 STATEMENT i

TABLE OF CONTENTS ii

TABLE OF AUTHORITIES ii

MISSTATEMENT OF FACTS 1

CIRCLE COULD PREVAIL UNDER A DIFFERENT TEST 2

CONCLUSION 5

TABLE OF AUTHORITIES

Athena Automotive, Incorporated v. DiGregorio, 166 F.3d 288 (4th Cir. 1999) 2

Harris v. Black Clawson Co., 961 F.2d 547 (5th Cir. 1992) 3

Mid Atlantic National Bank v. Hansen, 48 F.3d 693 (3rd Cir. 1995) 2

Wm. Passalacqua Builders, Inc. v. Resnick Developers South, Inc., 933 F.2d 131 (2nd Cir. 1991) 4

REPLY BRIEF IN SUPPORT OF PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

MISSTATEMENT OF FACTS

The Statement of Facts contained in pages 4 through 7 of The Respondent's Brief In Opposition To Petition For Writ Of Certiorari contains unreferenced allegations that are at odds with the facts, as set forth in the opinion of the United States Court of Appeals for the Second Circuit.

Respondent, Parke Construction Group, Incorporated (Parke), alleges that, "The arbitrator took possession of these exhibits ...." (p.4 of Parke's Brief In Opposition). Yet, it is clear that the arbitrator never took possession of the exhibits, as they were lost by the American Arbitration Association. The Second Circuit stated that, "On April 14, 1997, an AAA administrator contacted counsel for the parties to request duplicate copies of the exhibits, explaining that the AAA could not locate the original exhibits." (A4 of the appendix to Petitioner's Petition For A Writ Of Certiorari).

Parke next claims that "The arbitrator reviewed each exhibit ...." (p.4). The Second Circuit determined that "The arbitrator reviewed some of the exhibits as they came into evidence and glanced cursorily at others." (A3-A4).

Parke summarizes the evidence regarding Parke's principal place of business.

> "Circle's contention that Parke's principal place of business was in New York was based upon the hearsay statements from unidentified individuals that Parke's mail was being forwarded to its president, John Bowe, in New York and that certain settlement negotiations regarding other disputes arising from the Joint Venture's projects had taken place in New York. In his responsive declaration, Mr. Bowe explained that the New York address mentioned in Circle's papers was for another corporation

> which he owned, which had no other affiliation with Parke and that the settlement negotiations in question had in fact been conducted in Georgia. Mr. Bowe also explained that Parke's business had only been conducted in Georgia." (p.6-p.7).

This supposed summary ignores the Second Circuit's view of the facts.

> "Between 1993 and the fall of 1995, Parke's registered office was located in Georgia and its registered agent, Greg Lubonty, resided there. In the spring of 1995, the parties agreed to phase out the joint venture, and Parke performed its last construction work in Georgia in the fall of 1995. Parke also closed its office in Georgia at that time. The corporation's registered agent, Lubonty, then left the state, and all mail addressed to Park was forwarded to Parke's president, John Bowe, in New York. Parke's activity since late 1995 has been limited to collecting its various accounts in Georgia and prosecuting this action in New York." (A3).

CIRCLE COULD PREVAIL UNDER A DIFFERENT TEST

Parke suggests that Petitioner, Circle Industries U.S.A., Inc., (Circle), "would still lose" regardless of the Supreme Court's resolution. This is incorrect. Circle would not prevail only under the Third Circuit's test in *Mid Atlantic National Bank v. Hansen*, 48 F.3d 693, 696 (3rd Cir. 1995). The Third Circuit's view is that an inactive corporation has no principal place of business. Circle could prevail under the "facts-and-circumstances test" of either the Fourth or Fifth Circuits. In *Athena Automotive Incorporated v. DiGregorio*, 166 F.3d 288 (4th Cir. 1999), the Fourth Circuit stated,

> "A corporation's business does not usually end

> with the abruptness of closing its doors. Even when a corporation has ceased all operations and has become inactive, the continuing impact of its business in a given locale could linger on to an extent sufficient to give it a geographic identity there as its principal place of business. Indeed, a corporation's winding up of its business affairs may well constitute a significant activity and consume a considerable period of time." 166 F.3d 288, 291.

The Court then concluded that if it had to find a principal place of business for the corporation in that case, it would choose the state from which the corporation was conducting the litigation, a this was virtually its only activity.

> "While Athena Automotive was unquestionably a citizen of Georgia, its state of incorporation, see 28 U.S.C. s 1332(c)(1), whether it also actually had a place of business at the commencement of this action is not a matter that we need to decide, since it did not have its principal place of business in Maryland. Because the defendants were Maryland citizens and Athena Automotive was not a Maryland citizen and was at least a Georgia citizen, complete diversity therefore existed. If, however, we were required to find a principal place of business for applying § 1332, we might, by applying our "nerve center test," conclude that Athena Automotive's only business was to pursue this litigation, an activity that was being conducted from Fairfax, Virginia." 166 F.3d 288, 292.

The Fourth and Fifth Circuits, see *Harris v. Black Clawson Co.*, 961 F.2d 547, 551 (5th Cir. 1992), regard the winding up activities of an inactive corporation as a relevant factor in determining if the inactive corporation has a local presence in a given locale. The Fourth and Fifth Circuits

examine the period of the inactivity as a relevant factor. The Fourth and Fifth Circuits consider the conduct and direction of litigation as a relevant factor. In other words, in the instant matter, if had been decided by the Fourth Circuit and possibly also by the Fifth Circuit, rather than the Second Circuit, the Court would have reversed the District Court on the remand issue.

Parke's major activity is conducting this law suit against Circle. The litigation is being conducted from New York. Circle could prevail under the Fourth or Fifth Circuit's view. In fact, Circle could prevail even under the Second Circuit's view, provided that its test did not include the rule of *Wm. Passalacqua Builders, Inc. v. Resnick Developers South, Inc.*, 933 F.2d 131 (2nd Cir. 1991), that conducting a law suit does not qualify as "transacting business" for jurisdictional purposes, see 933 F.2d at 131, 141.

CONCLUSION

Parke's presentation of the facts in its Brief In Opposition is flawed and should not be relied upon. Its position that Circle can not prevail is also flawed.

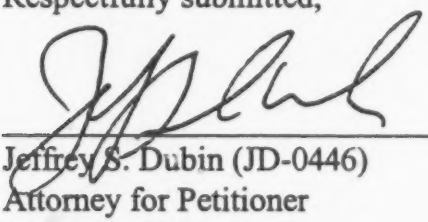
This case presents a question of importance, whether an inactive corporation, whose only activity is engaging in a law suit, has a principal place of business in the state from which it is prosecuting that law suit. This case presents an opportunity for this Court to resolve a conflict involving four Courts of Appeals holding three different positions.

If the petition is granted, this Court can correct the errors that allowed this case to remain in the federal court system when all the parties were actually citizens of New York. This Court can direct that this case be remanded to the Supreme Court of the State of New York, County of Nassau.

Circle Industries USA, Inc., respectfully requests that its petition for a writ of certiorari be granted.

Dated: Huntington, New York
November 11, 1999

Respectfully submitted,



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